

SPONSOR ECONOMICS HAVE A MARKET NOW: WHAT STANDARDIZATION CHANGES

FEES AND CARRY ARE BECOMING CLEARER. THE NEGOTIATION IS MOVING ELSEWHERE.

isn INSIGHTS

EXECUTIVE SUMMARY

Independent Sponsor economics once varied so widely that every transaction began with a basic question: what does “market” even mean?

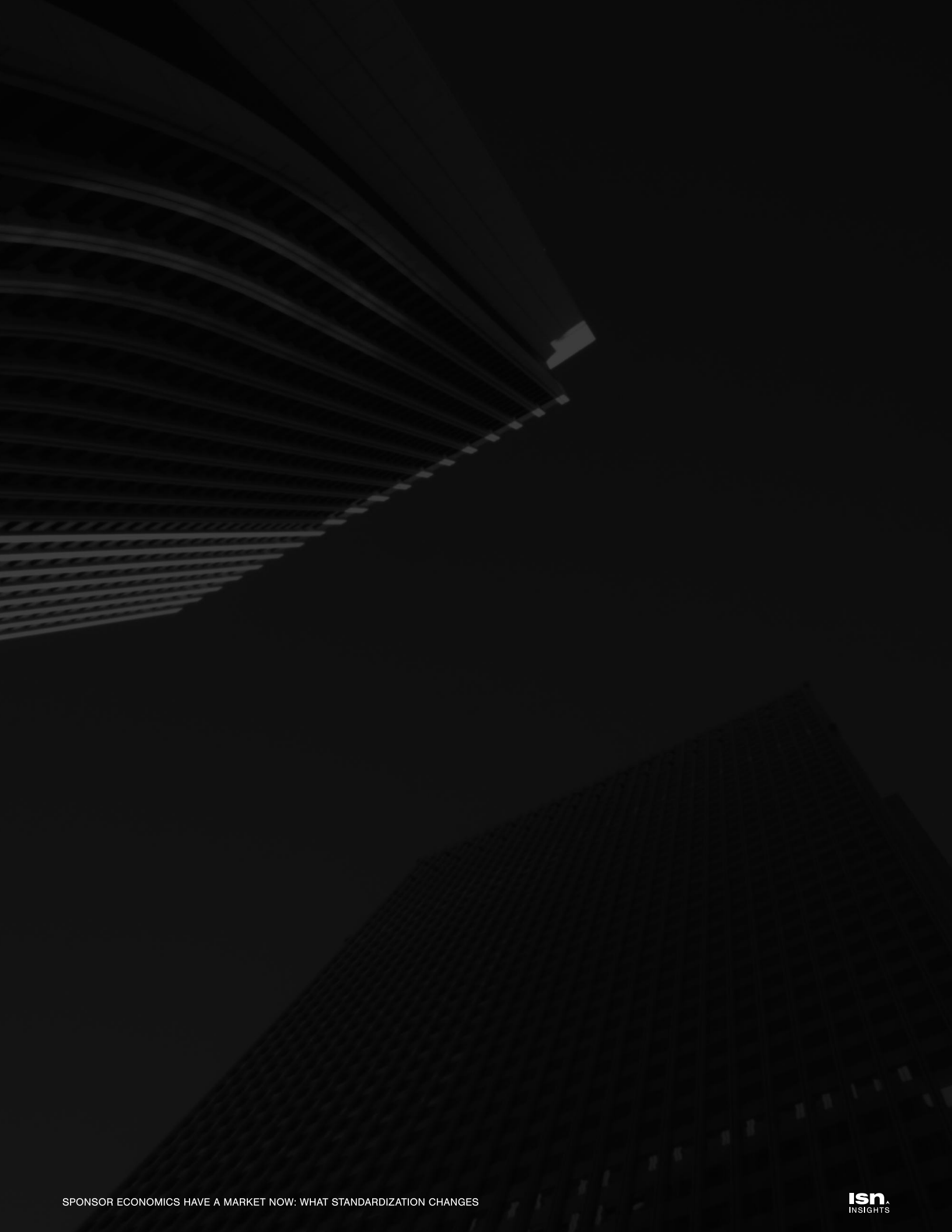
That question is becoming easier to answer.

Citrin Cooperman’s 2026 Independent Sponsor Report shows growing standardization across transaction fees, management fees, hurdle rates, catch-ups, and carried-interest structures. Among experienced Sponsors, 60% say it is easier to negotiate economics with capital providers today than it was three to five years ago.

This does not mean every transaction follows one formula. It means the basic components of Independent Sponsor compensation are increasingly understood and accepted.

As the headline terms become more standardized, the most important negotiations are moving underneath them: vesting, attribution, fee rollover, governance, removal rights, dilution, and how future capital affects the waterfall.

A Sponsor can receive “market” economics and still agree to a structure that performs very differently from what the headline percentages suggest.



CLOSING FEES ARE INCREASINGLY ESTABLISHED

Citrin found that only 4% of respondents do not receive a closing fee, down from 9% in 2018.

The calculation has also become more consistent. Eighty-seven percent now base closing fees on a percentage of transaction value, compared with 57% in 2018. A 2% fee is the most common level, cited by 67% of respondents.

That clarity benefits both Sponsors and capital providers. It reduces time spent debating whether a closing fee is appropriate and allows the discussion to focus on how much of it will be paid in cash, rolled into equity, or used to satisfy the Sponsor's investment requirement.

The fee is no longer the unusual term. Its treatment is where the negotiation remains.

CARRY IS STANDARDIZING, BUT NOT SIMPLIFYING

Carried interest remains the most variable component of Sponsor economics.

Citrin reports that 60% of respondents can earn maximum carry of 25% or more. Hurdles between 8% and 9.9% remain the most common, while full catch-ups are now used by 78% of respondents, up from 61% in 2019.

The basis for the hurdle is also changing. MOIC-based hurdles are now more common than IRR-only structures, and the use of combined MOIC and IRR tests has increased.

That shift reflects a real alignment issue.

IRR rewards speed. MOIC rewards total value creation. A combined structure can prevent a Sponsor from receiving a higher tier solely because an investment was exited quickly, while also recognizing strong returns that compound over a longer period.

But combined tests can also make carry harder to earn. The definitions, measurement dates, treatment of interim distributions, and order of operations matter as much as the stated hurdle.

VESTING AND REMOVAL PROVISIONS DETERMINE DURABILITY

A Sponsor's right to carry may depend on remaining involved throughout the investment.

That makes vesting, termination, and removal provisions central to the economics.

What happens if the capital provider removes the Sponsor from the board? What constitutes cause? Does carry continue to vest if the Sponsor is no longer managing the company? Is vested carry protected after a disagreement? Can future dilution reduce the Sponsor's economics?

These questions rarely appear in the headline description of a deal. They determine whether the Sponsor's long-term participation is secure.

LARGER DEALS CAN CREATE PERCENTAGE PRESSURE

As Independent Sponsors pursue larger transactions, capital providers may push for lower carry percentages because they are contributing more equity or managing capital on behalf of their own LPs.

A lower percentage does not necessarily mean worse economics. A smaller share of a larger outcome may still produce a greater dollar return.

But Sponsors should be careful not to evaluate economics only in projected dollars. Larger deals can require more work, longer holding periods, additional governance, and greater exposure to dilution or follow-on capital.

Scale should not erase alignment.

WHAT ACTUALLY MATTERS NOW

01

Benchmark closing fees, management fees, hurdles, catch-ups, and carry separately.

02

Focus on definitions, vesting, removal rights, and dilution rather than relying on the headline carry percentage.

03

Model how the waterfall performs across different exit dates and return outcomes.

04

Evaluate economics against the Sponsor's full pre-close and post-close responsibilities.

Independent Sponsor economics are becoming easier to discuss because the market now understands the basic structure.

That is progress.

It also means sophisticated negotiations are moving past whether Sponsors should receive fees and carry and toward the conditions under which they actually keep and earn them.

Market terms create a starting point.

The documents determine the outcome.

Citrin Cooperman, 2026 Independent Sponsor Report
Ropes & Gray, The Rise of Independent Sponsors: Evolution, Economics, and Opportunity
McGuireWoods, Independent Sponsor Deal Survey

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